Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014

Message Text

CONFIDENTIAL

PAGE 01 LIMA 04077 01 OF 02 112143Z
ACTION ARA-14

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
INR-10 NSAE-00 TRSE-00 XMB-02 OPIC-03 SP-02
LAB-04 SIL-01 OMB-01 SS-15 STR-07 CEA-01 PA-01
SSO-00 NSCE-00 INRE-00 ICAE-00 /078 W
----------075025 112207Z /23L
O 112112Z MAY 78
FM AMEMBASSY LIMA
TO SECSTATE WASHDC IMMEDIATE 9969

C O N F I D E N T I A L SECTION 1 OF 2 LIMA 4077

E.O. 11652: GDS
TAGS: EFIN PE
SUBJ: NEW ECONOMIC MEASURES: DESCRIPTION AND ANALYSIS

REF: LIMA 4045

BEGIN LIMITED OFFICIAL USE

1. SUMMARY: THIS CABLE PROVIDES FULLER DESCRIPTION AND MORE DETAILED ANALYSIS OF NEW ECONOMIC MEASURES PUBLISHED IN OFFICIAL GAZETTE ON MAY 10. THESE NEW MEASURES WERE SUMMARIZED IN REFTEL. END SUMMARY.

2. SPECIFIC MEASURES ARE AS FOLLOWS:

DECRETO LEY (DL) 22160--REDUCES FROM 30 PERCENT TO 25 PERCENT THE EXEMPTION TO TAXABLE INCOME FOR PUBLIC SECTOR WORKERS.

DL 22161--ADJUSTS PAYROLL TAXES OF PUBLIC SECTOR EMPLOYEES ACCORDING TO NORMS APPLICABLE TO PRIVATE SECTOR EMPLOYEES. PREVIOUSLY THERE WAS A 1 PERCENT TAX ON ALL PRIVATE SECTOR WORKERS WHILE IN PUBLIC SECTOR THE PAYROLL TAX WAS 1 PERCENT ON BASIC WAGES BETWEEN S/. 11,800 AND S/. 19,200. NEW MEASURE IMPOSES EQUAL RATES ON BOTH PUBLIC AND PRIVATE
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 LIMA 04077 01 OF 02 112143Z

SECTOR WORKERS, WITH 1 PERCENT RATE FOR BASIC WAGES UP TO S/.20,000 AND 2 PERCENT RATE FOR WAGES OVER S/.20,000.

DL 22162--INCREASES MOTOR VEHICLE USE TAX BY 50 PERCENT IN EACH CATEGORY.

DL 22163--INCREASES RATES OF THE GENERAL TURNOVER (OR

Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014

Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014

PRODUCTION) TAX ON SPECIFIC CATEGORIES OF GOODS
AND SERVICES. INCREASES VARY FROM 5 PERCENT INCREASE
(FROM 40 TO 42 PERCENT) IN SPECIAL TAX ON PRODUCTION AND
TRADE TO A 400 PERCENT INCREASE (FROM 2 TO 10 PERCENT) ON LOCAL
TELEPHONE SERVICES. ACCORDING TO INFORMATION
PROVIDED TO US BY CENTRAL BANK OFFICIAL, GOP
ALSO HAS PROPOSED A 214 PERCENT INCREASE (FROM 7 TO 22 PERCENT)
IN THE TAX ON GASOLINE. THE OFFICIAL INDICATED
THAT THIS GASOLINE TAX WOULD PROBABLY BE ENACTED
IN CONJUNCTION WITH OTHER MEASURES (I.E. GENERAL
GASOLINE PRICE INCREASE, REDUCTION OF SUBSIDIES)
TO BE APPROVED AFTER JUNE 4 ELECTION.

DL 22164--INCREASES TAX ON FOREIGN TRAVEL FROM S/. 2,000
TO S/. 3,000 FOR THE FIRST 5 DAYS AND FROM S/. 200
TO S/. 300 FOR EACH ADDITIONAL DAY. (THE 30 PERCENT TAX
ON THE VALUE OF THE TRAVELER'S TICKET HAS BEEN
RETAINED.)

DL 22165--INCREASES BY APPROXIMATELY 100 PERCENT TAXES ON WINNINGS
OF LOTTERIES, HORSE RACES AND OTHER WAGERS. TAXES
ON LOTTERY AND HORSE RACE TICKETS ARE ALSO INCREASED
BY A SIMILAR AMOUNT.

DL 22166--INCREASES THE RATE OF TAX ON TRADITIONAL EXPORTS
FROM 15 TO 17.5 PERCENT. THE NEW MEASURE EXEMPTS MEDIUM-
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 LIMA 04077 01 OF 02 112143Z

SIZE MINING COMPANIES WHICH PRODUCE ZINC AS A PRIMARY
PRODUCT. MEDIUM-SIZE COPPER PRODUCERS WERE AL-
READY EXEMPT FROM THIS TAX.

DL 22167--ALLOWS THE MINISTRY OF ECONOMY AND FINANCE TO
ISSUE PUBLIC INVESTMENT BONDS UP TO S/. 1.5 BILLION.

DL 22168--ALLOWS FEES FOR PUBLIC SERVICES TO BE INCREASED
BY MEANS OF SUPREME DECREES APPROVED BY THE MINISTRY
OF ECONOMY AND FINANCE.

DL 22169--LIMITS OVERTIME PAY FOR CERTAIN CATEGORIES OF
PUBLIC SECTOR EMPLOYEES AND CUTS BUDGETARY ALLOCA-
TIONS FOR CONSULTING SERVICES.

DL 22171--INCREASES DUTIES ON VARIOUS CATEGORIES OF CAPITAL
GOODS IMPORTS. IN MOST CASES AN ADDITIONAL 10 PERCENT HAS
BEEN ADDED TO THE EXISTING RATES.

DL 22172--INCREASES DUTIES ON VARIOUS CATEGORIES OF IMPORTED
INPUTS. IN GENERAL THE RATES HAVE GONE UP ANOTHER 10 PERCENT.

Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014

Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014

DL 22173--CREATES A TEMPORARY 10 PERCENT TAX APPLICABLE UNTIL THE END OF 1978 ON ALL IMPORTS, BASED ON CIF VALUE. FOOD IMPORTS, MEDICINES, AGRICULTURAL INPUTS AND PETROLEUM AND PETROLEUM DERIVATIVES ARE EXEMPT FROM THIS SURTAX. THE CENTRAL BANK BELIEVES THE TAX WILL RESULT IN A 10 PERCENT DROP IN IMPORTS; THIS REDUCTION IS FACTORED INTO THE FISCAL IMPACT OF THE MEASURE NOTED BELOW.

2. THE GOP EXPECTS THAT IN JUNE-DECEMBER 1978 PERIOD THE MEASURES WILL BRING IN ABOUT S/. 21.4 BILLION, COMPOSED AS FOLLOWS (IN BILLIONS OF SOLES):

INCOME TAXES (DL 22161 AND DL 22165) .7
CONFIDENTIAL

CONFIDENTIAL

MOTOR VEHICLE USE TAX (DL 22162) .9
IMPORT TAXES 10.6

(DL 22171) TAX ON CAPITAL GOODS --3.6 BILLION)

(DL 22173, 10 PERCENT IMPORT SURTAX--7.0 BILLION)

EXPORT TAX (DL 22166) 2.6
TURNOVER TAXES 4.7

(DL 22163, TAX ON GOODS AND SERVICES--4.2)

(DL 22164, TAX ON FOREIGN TRAVEL--.1)
(MINISTERIAL RESOLUTION ALSO PUBLISHED MAY 10 WHICH REDUCES FROM 90 TO 60 DAYS PAYMENT PERIOD FOR TOBACCO TAX--.4)

FEES FOR PUBLIC SECTOR SERVICES (DL 22168) .4
BONDS (DL 22167) 1.5
TOTAL 21.4

3. CENTRAL BANK OFFICIAL, WHO IS ALSO KEY ADVISOR ON COAP STAFF, ACKNOWLEDGED TO ECON OFF THAT THE REDUCTION MEASURES INCORPORATED IN DL 22169 HAVE VERY SMALL IMPACT AS COMPARED TO OTHER DECREE LAWS PUBLISHED MAY 10. THEREFORE, THEY ARE NOT INCLUDED IN ABOVE BREAKDOWN.

4. THE GOP PROJECTIONS OF THE FISCAL IMPACT OF THE

CONFIDENTIAL

Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014

Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014

NNN

CONFIDENTIAL

PAGE 01 LIMA 04077 02 OF 02 112151Z
ACTION ARA-14

INFO OCT-01 ISO-00 SP-02 AID-05 EB-08 TRSE-00 SS-15
STR-07 OMB-01 CEA-01 CIAE-00 COME-00 FRB-03
INR-10 NSAE-00 XMB-02 OPIC-03 LAB-04 SIL-01 PA-01
NSCE-00 INRE-00 ICAE-00 SSO-00 /078 W
----------075084 112209Z /23
O 112112Z MAY 78
FM AMEMBASSY LIMA
TO SECSTATE WASHDC IMMEDIATE 9970

C O N F I D E N T I A L SECTION 2 OF 2 LIMA 4077

MEASURES COINCIDE ROUGHLY WITH OUR OWN CALCULATIONS
AND THE ESTIMATES OF A
RESPECTED LOCAL ECONOMIST WHO IS EDITOR
OF PERU ECONOMICO, AND WAS A PRINCIAPL ADVISOR TO FINANCE
MINISTER PIAZZA DURING THE LATTER'S TENURE. IT SHOULD
BE EMPHASIZED THAT PROJECTIONS ARE ONLY FOR MEASURES PUB-
LISHED MAY 10 AND EXCLUDE IMPACT OF ADDITIONAL MEASURES
EXPECTED TO BE PUBLISHED AFTER JUNE 4 ELECTION.
THESE INCLUDE GASOLINE PRICE HIKE (WITH ADDITIONAL TAX
INCREASE NOTED IN PARA 1), REDUCTION IN FOOD SUBSIDIES AND
INCREASE IN BASIC WAGE.
EXCHANGE RATE AS NOTED REFTEL WAS ALLOWED TO MOVE FROM 130/$ TO 140/$
ON MAY AND CENTRAL BANK SOURCE INFORMS US IT WILL GO TO 150/$ BY END
OF MONTH. HOWEVER, ACCORDING TO THIS SOURCE, EXCHANGE RATE POLICY IS
STILL TO BE WORKED OUT DURING NEGOTIATIONS WITH IMF.

5. CENTRAL BANK OFFICIAL PROVIDED US WITH
FOLLOWING PROJECTIONS OF TREASURY FINANCED EXPENDITURES,
INCOME AND FINANCIAL GAP (DOMESITCALLY FINANCED) AND IN-
FORMED US THAT THESE PROJECTIONS WERE BASED UPON IMPACT
OF FULL PACKAGE--INCLUDING IMPACT DEVLAUATION TO S/.150,
PRICE INCREASES, WAGE INCREASE (PROBABLY OF S/.1,500 PER
MONTH) AND INCREASES IN TAXES ON PETROLEUM PRODUCTS.
SINCE THESE MEASURES WERE ORIGNALLY SCHEDULED FOR
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 LIMA 04077 02 OF 02 112151Z

PUBLICATIN AT SAME TIME AS NEW TAXES, THESE PROJECTIONS
ARE BEING REVISED TO ACCOUNT FOR THE EARLIER IMPLEMENTATION
OF THE MAY 10 LAWS. ALL DATA ARE IN BILLIONS OF SOLES

Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014

Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014

AND REFER TO CENTRAL GOVERNMENT FISCAL GOPERATIONS FOR
ENTIRE CY 1978.

I. TREASURY DEFICIT WITHOUT PACKAGE
PROJECTION OF REVENUSES 217.0
PROJECTION OF EXPENDITURES 293.8
FINANCIAL GAP 76.8

II. INCREASED EXPENDITURES
DUE TO NEW PACKAGE 7.1
DUE TO S/.150 EXCHANGE RATE 7.5
14.6

NEW FINANCIAL GAP (I & II) 91.4

III. INCREASED REVENUSES
DUE TO NEW REVENUE MEASURES 41.0
DUE TO S/.150 EXCHANGE RATE 58.8
46.8

IV. TREASURY FINANCIAL GAP 446.6
WITH PACKAGE

WE INTERPRET DATA AS CASH FLOW BASIS, BUT EXCLUDING UTILI-
ZATION AND AMORTIZATION OF EXTERNAL CREDITS. THEREFORE,
THE FINAL GAP APPROXIMATES REQUIREMENT FOR NET DOMESTIC
BANKING SYSTEM FINANCING OF CENTRAL GOVERNMENT.

6. CENTRAL BANK OFFICIAL TOLD US THAT THE MEASURES
ANNOUNCED MAY 10 WERE RESULT OF UNDERSTANDING REACHED
CONFIDENTIAL

CONFIDENTIAL

WITH IMF DURING RECENT DISUCUSSIONS THAT ENACTMENT
AND PUBLICATION OF THESE DECREE LAWS WAS NECESSARY
BEFORE FUND WOULD AGREE TO ENTER FORMAL NEGOTIATIONS WITH
GO OVER NEW STANDBY. HE SAID THESE NEGOTIATIONS
ARE EXPECTED TO BEGIN WITHIN TWO WEEKS.

BEGIN CONFIDENTIAL

7. COMMENT: NEW MEASURES WERE PUBLISHED AT A CRITICAL
MOMENT WITH THE CENTRAL BANK FACING INCREASING DIFFICULTIES
IN FINDING THE FOREIGN EXCHANGE TO MEET INTERNATIONAL
PAYMENTS OBLIGATIOS. GOP CLEARLY HOPES THAT PACKAGE CON-
SISTING OF NEWLY -PUBLISHED MEASURES, PROMISED GASLOLINE
PRICE INCREASES AND REDUCTION S OF FOOD SUBSIDIES, AND
MOVEMENT IN EXCHANGE RATE WILL BE ENOUGH TO CONVINCE
FOREIGN BANKERS THAT PERU MERITS THEIR SUPPORT. SPECIFICALLY
PERUVIANS CAN BE EXPECTED TO ASK STERRING COMMITEE DURING
MEETINGS IN NEW YORK NEXT WEEK FOR 90-DAY ($80-90 MILLION)

Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014

Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014

ROLLOVER OF PUBLIC SECTOR FOREIGN DEBT MATURITIES, BUT
WILL PROBABLY HAVE TO BE CONTENT WITH 30-DAY ROLLOVER (TO
MID-JUNE) WITH EXTENSIONS CONDITIONAL ON THE ANNOUNCEMENT OF
THE GASOLINE PRICE AND SUBSIDY REDUCTION PACKAGE.

DECN T-11-79 PREEG

CONFIDENTIAL

NNN

Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS, FINANCIAL PLANS
Control Number: n/a
Copy: SINGLE
Draft Date: 11 may 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978LIMA04077
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D780201-0137
Format: TEL
From: LIMA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780570/aaaachef.tel
Line Count: 284
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: de288ea0-c288-dd11-92da-001cc4696bcc
Office: ACTION ARA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 6
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 78 LIMA 4045
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 25 jul 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2725164
Secure: OPEN
Status: NATIVE
Subject: NEW ECONOMIC MEASURES: DESCRIPTION AND ANALYSIS
TAGS: EFIN, PE
To: STATE
Type: TE
vdkvgwkey: odbc://SAS/SAS.dbo.SAS_Docs/de288ea0-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014